Chapter 5

Program Income

Introduction

This chapter distinguishes between what is and what is not included in program income, provides guidance on how to account for program income, and discusses the requirements that apply to using program income.

It contains the following sections:

* What Is Included in Program Income
* What Is Not Included in Program Income
* Accounting for the Cost of Generating Program Income
* Uses of Program Income
* Applicable Terms

What Is Included in Program Income

The Regulations define program income and list examples of the types of income or revenue that constitute program income. Each is listed below and followed by an example to illustrate the application of the rule.

Fees
Income from fees for services performed.

> Example
> The JTPA entity has conducted a local labor market survey using JTPA funds, and has printed the results for distribution to local employers. It charges the employers a fee to obtain a copy of the publication. The fee is program income.

Conferences
Income from conferences.

> Example
> The JTPA entity, using JTPA funds, sponsors a conference on case management that is attended by both JTPA and non-JTPA service providers. All conference fees collected are included as program income to JTPA.

What the Regulations Require

Program income is defined and addressed extensively in the JTPA Regulations at Section 627.450. These requirements are more explicit than in prior Regulations. The requirements:

* Identify revenue sources that are included as program income.
* Are more specific in restricting the use of program income.

Establish reporting requirements, administrative cost limits, the final date that program income may be used, and what happens to program income not used in accordance with these requirements.

Record Keeping Is Required.
Each entity receiving financial assistance under the JTPA is required to keep records sufficient to determine the amount of program income received and the purposes for which such income is expended. The cost classification and administrative cost limitation provisions of the Act apply to program income earned under Title II-A, II-B, II-C, and EDWAA.

Earnings Should Be Incidental.
Although the JTPA allows program income to be earned and used for JTPA program purposes, earned program income should be kept to a minimum, and should be incidental to providing JTPA services to eligible participants. Earning program income should not become a principal design feature of the program.

Section 164(a)(3)(D) states that "procurements shall not provide excess program income (for nonprofit and governmental entities) or excess profit (for private for-profit entities)," and that "appropriate factors shall be utilized in determining whether such income or profit is excessive."

Rental or User Fees
Income from the use or rental of real or personal property acquired with grant or subgrant funds.

> Example
> The JTPA entity has purchased a copying machine that it allows a non-JTPA program to use for a per-copy fee. Revenues from the use of the copier by another program are program income to JTPA.

Sale of Products
Income from the sale of commodities or items fabricated under a grant or subgrant.

> Example
> JTPA enrolls participants in a culinary arts training program. Meals prepared by the trainees are sold to the public. Revenue generated from the sale of meals is program income to JTPA.

Revenues in Excess of Costs
Revenues earned by a governmental or private nonprofit service provider under a fixed price, fixed unit price, or cost reimbursable award that are in excess of the actual costs incurred in providing the services. (Note the restriction placed on fixed unit price agreements for units of government and administrative entities at 20 CFR 627.420(g).)

> Example 1
> A nonprofit service provider performs JTPA training and job placement services under a fixed unit price agreement. The service provider must track and account for the total cost of providing these services to determine whether gross revenues exceed expenditures. If revenues do exceed expenditures, the difference is program income to

the service provider.

Example 2
A service provider operates a JTPA program under an agreement that provides for the full reimbursement of actual costs plus incentive fees for meeting performance benchmarks. The incentive fees that are earned are in excess of actual costs and are program income to the service provider.

Interest Income
Interest income earned on advances of JTPA funds.

Example
The SDA is part of a unit of local government and receives cash advances from the State. The cash advances are deposited into the general revenue fund along with other non-JTPA cash. JTPA's share of the interest earned in the general revenue account is program income. The JTPA program must be able to identify and retrieve its share of this joint interest income, and account for and use it as program income.

What Is Not Included in Program Income

The Regulations at 627.450 list the types of revenues and adjustments to expenditures that are not included as program income. Each is listed below and followed by an example to illustrate the application of the rule.

Applicable Credits
Applicable credits such as rebates, credits, discounts, refunds, or interest earned on any of them. These amounts are credited as a reduction to costs or remitted to the U.S. Department of Labor (DOL) (627.435(d)).

Example
A vendor offers a volume discount if cumulative purchases exceed $10,000 annually. The subrecipient pays the vendor at list price during the year, and receives the discount as a refund at year end. That refund is not program income, but should be accounted for as a reduction to expenditures for that year.

Taxes
Taxes, special assessments, levies, fines, and other governmental revenues raised by the recipient or subrecipient.

Example The State appropriates general revenue funds to supplement the JTPA summer youth employment program. Although State law applies all of the JTPA requirements to the use of State funds, the supplemental funding is not program income.

Royalties and License Fees
Income from royalties and license fees for copyrighted material, patents, patent applications, trademarks, and inventions developed by a recipient or subrecipient.

Example
The SDA writes a software application to computerize its case management program.

The program is copyrighted and sold to other SDAs at a price intended to recover the SDA's development costs. The resulting revenues are not program income.

Caution: For any copyrighted work developed or purchased under a JTPA award, DOL reserves a royalty-free, nonexclusive and irrevocable right to reproduce, publish, or otherwise use the copyrighted materials for Federal purposes (29 CFR 97.34 and 29 CFR 95.36). Nonprofit organizations are also required at 29 CFR 95.37 to hold intangible or other property in trust for the benefit of the project or program under which it was acquired. In addition, a recipient or subrecipient, in conformance with Section 124 of the Act, may also impose additional conditions on its award of JTPA funds that would govern the use of or proceeds generated from copyrighted materials developed under a JTPA award.

Sale of Property

Proceeds from the sale of real property, equipment, supplies, and intangible property are governed by the property management standards in the Regulations at 627.465. These standards incorporate the requirements of the OMB Circulars. Proceeds from the sale of property are not program income, but they are often required to be returned to the awarding agency or to DOL. Additional guidance on acquiring and disposing of real property is contained in Chapter 7, Property Management, of this guide.

Example

The SDA is a governmental entity, and the State has directed governmental SDAs to follow the Federal rules on property disposition at 29 CFR 97.32(e). The SDA disposes of a van that was bought with 50% JTPA and 50% non-JTPA funds. The van is sold at its current market value of $12,000, the cost of sale is $500, and the net proceeds are $11,500. JTPA's share of the net proceeds is 50%, or $5,750. The SDA would return the JTPA share of the proceeds to the awarding agency (the State). There is no program income earned in this example, and the SDA does not reduce the amount of JTPA expenditures originally recorded for the purchase of the van.

Additional Exclusions

Profits of Commercial Organizations

Profits earned by commercial for-profit organizations when conducting JTPA-funded activities are not considered program income. The awarding agency must be careful to ensure that excess profits are not being earned by commercial organizations.

Donations/Contributions

Donations and contributions are voluntarily given by a non-JTPA source, and their receipt does not require the performance of a JTPA-supported service or activity. Because these funds are neither generated by nor result from the use of JTPA funds, they are not program income.

Funds Received for Providing Non-JTPA Services

Whenever an entity provides a non-JTPA service, the full cost of providing that service, and the corresponding revenue earned, should be accounted for separately from JTPA. If that activity generates revenue in excess of costs, the resulting income is not program income to JTPA since it was not generated by the use of JTPA funds. However, depending on the type and source of non-JTPA funds that were used to provide the non-JTPA service, the net income that was earned could be program income to that particular funding source.

Matching Funds
Additional funds that are provided to JTPA to meet any matching requirement of JTPA are not program income.

Accounting for the Cost of Generating Program Income

The Regulations state that "Costs incidental to the generation of program income may be deducted, if not already charged to the grant, from gross income to determine net program income." (627.450(b))

Accounting For Revenue and Cost
Two methods may be used in accounting for revenue and cost associated with generating program income: the gross income method and the net income method. These methods are discussed below.

Gross Income Method.
With this method, all gross revenues derived from program income activities are accounted for as program income. In turn, JTPA's share of the allocable costs associated with generating that revenue is charged to the appropriate JTPA titles and cost categories.

In the accounting records, the entire amount of gross revenues would be recorded in the program income account for the appropriate title and funding period. The title in which the program income is recorded would be the same title to which the corresponding expenditures are charged. Likewise, the funding period to which the program income is assigned is the same funding period to which the corresponding expenditures are charged. Expenditures incurred in generating the program income are charged to the appropriate titles and cost categories.

> Example
> The SDA funds an automotive mechanics training program for JTPA participants on a cost reimbursement basis. The trainees repair privately owned vehicles. The automobile owners are charged for parts plus a nominal processing fee. JTPA is billed for the cost of training, tools that will be retained by the participants, and new or used auto parts that are used in the repair. The subrecipient charges all these costs to the appropriate titles and cost categories. All the revenue collected from the automobile owners is JTPA program income to the subrecipient, is recorded as program income in the appropriate titles, and is to be used to provide additional JTPA services under the subrecipient agreement.

Net Income Method.
With this approach, the costs incidental to the generation of program income are netted against or deducted from gross program income to determine the amount of net program income.

The expenditures and revenues associated with performing the activity that generates program income are tracked separately in the accounting records. At the end of the project, revenues and expenses are netted to determine the amount of net program income. Net program income is then recorded in the JTPA program income account by appropriate title and funding period.

> Example
> A nonprofit JTPA service provider operates several training programs using fixed unit price, performance-based contracts. The expenditures incurred and revenues earned under each contract are accounted for separately. For each contract, expenditures and revenues are netted, and the net income resulting from each contract is then recorded as program income to JTPA.

In some cases, the most efficient approach to account for program income is to net revenues against only part of the costs in order to determine net program income. Two examples follow:

- In the auto mechanics training example given above, revenues could be netted against the cost of the auto parts to determine net program income, instead of charging the cost of the parts to the JTPA subgrant.

- In another case, the SDA uses its own staff to conduct a conference on case management that is attended by other SDAs and JTPA service providers. Staff costs are charged to the appropriate JTPA expense accounts. The SDA's additional costs for conducting the conference are accounted for separately and total $5,000. Registration fees and other revenues are also accounted for separately and total $6,000. The conference produces net program income of $1,000, which is recorded in the appropriate JTPA title and funding period.

In the second example, a procedure similar to the gross income method is used when charging staff costs directly to JTPA expense accounts. For all other nonstaff costs and all revenue collected, these entries are accounted for separately in the JTPA accounts using the netting method to determine net program income. The net program income should be allocated among the appropriate JTPA titles using an appropriate basis for allocation, such as each title's proportionate share of direct staff costs incurred in conducting the conference.

Accounting For the Expenditure of Program Income
Program income is used to provide activities or services beyond the level required in the original agreement. The program income must be added to the particular JTPA award under which it was earned, and such income must be used for JTPA purposes and under the terms and conditions applicable to the use of the granted funds.

Once the amount of program income has been determined and identified by title and funding period, two alternative approaches may be used to account for the expenditure of the program income: the additional services may be separately accounted for in the program income account, or already recorded expenditures may be transferred to the program income account.

Separate Accounting.
When using this approach, program income is treated as additional funds committed to the (sub)grant agreement, for which separately identifiable services are performed, and the expenditure of program income is accounted for separately from the original agreement. For

accounting purposes, the program income is treated as if it were a separate (sub)grant or cost objective.

> Example
> A nonprofit organization earned $5,000 in program income which was the amount by which revenues exceeded costs under a fixed unit price agreement funded by JTPA Title II-A. The organization used the program income to provide additional training and placement services, consistent with the terms of the original agreement, and established separate Title II-A accounts by cost category to record the expenditures incurred in providing the additional services.

Transfer of Expenditures.
When using this approach, expenditures are initially recorded in the accounts of the original agreement, and are subsequently transferred to the program income account to offset the amount of program income earned. The result is that the program income is accounted for as fully expended, while expenditures charged under the (sub)grant agreement are reduced by the amount of expenditures that have now been applied to program income.

> Example
> During the grant period, the service provider has recorded $1,000 in interest income. To expend the program income within the grant period, the service provider transfers $1,000 in expenditures already incurred under the subgrant from the appropriate cost categories to the program income account, and reduces subgrant expenditures in the corresponding cost categories by that same amount, which frees up the $1000 to be used for additional expenditures under the subgrant. When submitting its expenditure report, the service provider reports the amount of program income earned, the amount expended by cost category, and final net expenditures charged to the subgrant.

The best method to use will depend on the circumstances; in some cases, only one method is possible. In the above example on fixed unit price agreements, expenditures cannot be transferred from the original agreement to the program income account because the subrecipient has already accounted for and reported total expenditures in determining program income earned. In many other situations, a choice between the two methods can be based on which method is more efficient and beneficial to the awarding agency.

Reporting by Title and Funding Period
Program income must be accounted for by JTPA title and by funding period, and reported to DOL on an annual basis. States may establish more frequent reporting requirements.

Reporting.
Program income earnings and expenditures must be reported annually by JTPA title and program year on the appropriate JTPA financial expenditure report. SDA reports to the State must include all program income earned and expended, regardless of whether the program income was earned and expended at the SDA level or at the lower-tier subrecipient level. Consequently, SDAs must require program income reports from subrecipients. Additional guidance on reporting program income is provided in reporting instructions issued by the Employment and Training Administration.

Reporting by Title.

Program income must be accounted for and reported under the same title(s) in which it was earned. These are the same title(s) to which the corresponding expenses that generated the program income were charged. If the JTPA entity operates programs under several subparts within the same title, the resulting program income does not need to be accounted for and reported separately by subpart, but can be combined into a total for the title as a whole.

> Example
> An SDA that operates programs that earned program income under Title II-A, II-B, and II-C should classify and report the combined amount of program income as Title II program income. The program income could then be used for purposes authorized under any of the Title II program subparts.

However, if the JTPA entity operates only one subpart within the title, the program income must be used to provide additional services authorized under that subpart.

> Example
> A service provider operates only a Title II-C youth program. Any program income that was earned would have to be used to provide additional services to II-C youth.

If the program income is attributable to more than one title, then an appropriate method of allocation should be used to distribute the program income among the titles which generated the program income.

Reporting by Funding Period.
Program income must be attributed to the funding period of the program year (PY) of funds with which it was earned. For example, program income earned as a result of the expenditure of PY 1993 JTPA funds should be identified and accounted for as PY 1993 program income.

Uses of Program Income

All requirements for using JTPA funds also apply to the use of JTPA program income, except for some relief on cost limitations as noted below. These requirements include, but are not limited to:

* Allowable cost guidelines
* Classification of costs by cost category
* Inclusion of program income earnings and expenditures in the audit
* Rules on procurement and selection of service providers
* Participant records and other record keeping
* Sanctions for misuse

Program income may be retained by the recipient or subrecipient that earned it only if such income is added to the funds committed to the particular JTPA grant or subgrant under which it was earned, and if such income is used for JTPA purposes and under the terms and conditions applicable to the use of JTPA funds. Some of these requirements are discussed below.

Cost Limitations.
The only cost limitation that applies to program income is the administrative cost limitation.

For program income, the percentage limitation on administrative costs by title is the same percentage that applies to regular JTPA funds in that same title. If program income is generated from more than one subpart within the same title, but the subparts have differing administrative cost limits, the applicable administrative cost limitation is governed by the subpart in which the program income was actually expended.

Interest Income Earned by the State.
Interest income earned by the State is also classified as program income, which represents a change from prior regulations. Since the interest earned by the State on advances of Federal funds may result in an interest liability payable to the Federal government as required by the Cash Management Improvement Act (CMIA) as codified at 31 U.S.C. 6503(c), the State is permitted to use the interest it earns on such advances to satisfy the interest debt created by the CMIA. The interest income used by the State to meet its CMIA liability is exempt from the administrative cost limitation that otherwise applies to program income.

Period of Use.
Program income must be used before submitting the final expenditure report for the funding period of the program year to which the earnings are attributable. A final expenditure report is required within 90 days after the funding period expires, unless DOL approves an extension. A funding period is the period of time when JTPA funds are available for expenditure (the program year in which Federal funds are obligated to the recipient, and the 2 succeeding program years). This means that program income attributed to the funding period for PY 1993, for example, must be expended before the submission of the PY 1993 final expenditure report, which is due no later than September 30, 1996 (unless an extension is granted by DOL).

Use or Transfer of Program Income.
The recipient or subrecipient that earned the program income may retain and use it for JTPA purposes. Thus, a subrecipient providing services to an SDA may retain and use the program income at the subrecipient level, but only for JTPA purposes authorized under the agreement. Only the recipient may permit another entity to use the program income if the subrecipient that earned it cannot use it for JTPA purposes.

Returning Program Income to DOL.
Program income that is not used according to the requirements, or that is not used before submitting the final expenditure report for the corresponding program year, must be returned to DOL.

Program Income Earned After the Funding Period.
Rental income and user fees on real and personal property acquired with JTPA funds shall continue to be treated as JTPA program income when earned in subsequent funding periods. There are no Federal requirements governing the disposition of all other program income earned after the end of the funding period.

Match.
Program income generated under Title II may also be used to satisfy the matching requirement of Section 123(b) of the Act (State Education Coordination and Grants).

Sanctions.

If the recipient or subrecipient does not use program income funds in accordance with the requirements, the sanctions applied to the misuse of grant funds are also applicable. For example, if the SDA were to exceed the administrative cost limitation in the expenditure of program income, these excess administrative costs would be subject to disallowance.

Additional Issues and Guidance

1. Interest Income

Interest income was discussed earlier in the context of earnings on advances of JTPA cash. Such interest income includes not only the interest earned on advances initially deposited into a bank account, but also interest earned on JTPA cash transferred to other accounts, such as payroll accounts or other special purpose accounts. Also included as program income is interest earned on other program income.

JTPA subrecipients that are part of a larger entity are often required to deposit JTPA cash receipts in the organization's general revenue or cash account that also contains many other sources of cash receipts. Cash balances in these accounts are often invested or earn interest in bank accounts, investment accounts, commercial paper, Treasury Bills, and money market accounts. The subrecipient must determine what portion of the total interest and investment income is allocable to JTPA, and account for that income as program income to JTPA. If the organization cannot determine JTPA's share of the income or gain access to it for use in the JTPA program, then it should consider establishing a separate bank account for JTPA cash. See Chapter 6, Cash Management, of this guide for more discussion of cash management issues.

2. Co-funded or Joint-funded Programs

Joint- or co-funded programs are those in which JTPA shares project costs on an equitable basis with other non-JTPA funding sources.

When the multiple funding sources are merely sharing joint costs on an equitable basis, the non-JTPA portion of the funding is not program income because this revenue is not generated by or the result of JTPA fund use. This distinction is illustrated in the following example.

> Example
> JTPA and local Welfare Department funds are jointly awarded to a service provider to serve welfare recipients on a cost reimbursement basis. Each funding source is charged its share of costs based on the relative number of participants served by funding source. The funding provided by the Welfare Department is not generated by or the result of the JTPA funding, and therefore is not JTPA program income. Each program is simply paying for its share of the total costs of the project.

When a joint project is co-funded from multiple funding sources, each funding source should be allocated its fair share of project costs (or program income) using an appropriate allocation method. As with the above example, the project costs were allocated between JTPA and local Welfare funds based on the relative number of participants served from each funding source. See Chapter 4, Cost Allocation and Cost Pooling, of this guide for more information on this subject.

Co-funded Programs That Generate Program Income.

If the co-funded program generates revenues in excess of expenditures, interest income, or some other form of program income, the resulting net income is program income. JTPA's share of the program income should be determined by using an appropriate allocation method, such as the proportionate share of joint program expenditures of each funding source.

3. Terms and Conditions of the Award
A recipient or subrecipient acting as the awarding agency should stipulate in its agreements with lower-tier subrecipients that program income be used for activities that are consistent with the subrecipient agreement. As noted earlier, program income may be retained by the recipient or subrecipient that earned it only if such income is added to the funds committed to the particular JTPA grant or subgrant under which it was earned, and if such income is used for JTPA purposes and under the terms and conditions applicable to the use of JTPA funds. The awarding agency is responsible for ensuring that its subrecipients properly identify and account for program income, and that they use it in the appropriate (sub)grant for purposes allowable under JTPA, and in conformance with the terms and conditions of the award.

4. Governor's policies
The Governor should provide guidance to the SDAs and subrecipients on the proper uses of program income, on the circumstances under which the Governor will require or permit the transfer of program income, and about sanctions applicable to the misuse of program income. SDAs and other subrecipients should address the issue of program income transfer in the terms and conditions of the award documents with lower-tier subrecipients.

Applicable Terms

The following terms and explanations are basic to the reader's understanding of this chapter. Some of the terms have been expanded from the definitions in the Glossary; some have been taken from the OMB Circulars to facilitate and clarify the recipient and subrecipient responsibility for program income.

Applicable credits
Receipts or reductions to expenditures that offset or reduce costs already charged to the grant as direct or indirect costs. Examples of such transactions are: purchase discounts; refunds, rebates, or allowances; recoveries or indemnities on losses; and adjustments resulting from overpayments or erroneous charges.

Conference revenue
Any amount of funds received resulting from a JTPA-supported meeting or conference. Examples include but are not limited to: registration fees, fees collected to cover the cost of training materials, and other fees assessed to cover the costs of attendance.

Contributions or donations
Voluntary funds received from non-JTPA sources whose receipt did not require the performance of a JTPA-supported service or activity. Contrast this term with "fees" as discussed in this chapter under the section "What Is Included in Program Income."

Netting
The offset of gross program income by the cost of generating that program income to determine the amount of net program income.

Program income
"Income received by the recipient or subrecipient directly generated by a grant or subgrant-supported activity, or earned only as a result of the grant or subgrant." (20 CFR 627.450(a))